

**BEFORE THE TENNESSEE REGULATORY AUTHORITY AT  
NASHVILLE, TENNESSEE**

**JULY 2, 1999**

<b>IN RE:</b>	)	
<b>CITIZENS TELECOMMUNICATIONS COMPANY</b>	)	<b>DOCKET NO. 98-00686</b>
<b>OF THE VOLUNTEER STATE TARIFF TO</b>	)	
<b>RESTRUCTURE DIGITAL CENTREX SERVICE</b>	)	

---

**ORDER DENYING TARIFF**

---

This matter came before the Tennessee Regulatory Authority ("Authority or the TRA") at the regularly scheduled Authority Conference held on April 20, 1999, for consideration of Citizens Telecommunications Company of the Volunteer State ("Citizens of the Volunteer State" or "the Company") Tariff to Restructure Digital Centrex Service. This Tariff was originally filed with the Authority on October 1, 1998, with the proposed effective date of October 30, 1998.

**BACKGROUND**

On November 4, 1997, the TRA opened Docket 97-07506 for the purpose of addressing the improper assessment by Citizens Telecommunications Company of Tennessee and Citizens of the Volunteer State (jointly "Citizens") of its existing Centrex tariffs.<sup>1</sup> In advance of the issuance of a show cause order the Consumer Services Division and Citizens submitted a settlement agreement that was approved by the Authority on June 30, 1998. In addition to providing for the forward-looking procedures for implementation of the existing Centrex tariff and monetary penalties, the settlement agreement set forth the following requirements:

---

<sup>1</sup> Centrex service is an alternative to PBX or key systems. With Centrex, all of the switching features and functions needed for a customer's internal telecommunications are located in the telephone company's central office instead of located at the customer's premise as is the case with a PBX or key system. Centrex service typically consist of three elements: 1) the Centrex line or intercom component that provides station-to-station calling; 2) the network access register that permits calls to be made to and received from the outside world; and 3) features.

Existing Centrex customers would be notified of the billing errors which resulted in under billing. This notice was to be provided within ninety (90) days of the approved settlement agreement.

Centrex customers would be notified of the financial impact of correcting their bill.

On or before October 1, 1998, Citizens would file revised Centrex tariffs to "simplify the Centrex service offering to eliminate the problems currently encountered with selling, provisioning, billing and overall administration, all of which contribute to customer confusion."

For those customers discontinuing Centrex service, (a) Citizens would purchase the customer owned equipment (CPE), (b) if Citizens owned the equipment, the customer would not incur any termination costs or penalties, or (c) for CPE owned by other entities, Citizens would pay all lease termination cost including penalties.

Citizens of Tennessee was directed to remove the \$19.30 monthly charge for each Centrex line terminating on a PBX/Key system.<sup>2</sup>

On October 1, 1998, Citizens filed revised Centrex tariffs proposing to implement the above requirements for Citizens of Tennessee and Citizens of the Volunteer State. The proposed tariffs would remove the network access register (NAR) and allow access to the outside world on all intercom lines. However, Citizens also proposed to increase the charges for intercom lines by approximately 300% (from \$11/month to \$35/month). In addition, if the customer wished to terminate Centrex service in a PBX or key system, the line rate would be increased to \$60 per month.

These tariffs were placed on the Authority Agenda for consideration at the December 15, 1998 Conference. Prior to that Conference, Citizens requested that the tariffs be removed and that Authority Staff be allowed to work with Citizens to resolve any issues arising from the tariffs. TRA Staff members David Foster and Joe Shirley, with subsequent legal review by Edward Phillips (hereafter, "TRA Staff"), were designated as parties to this proceeding for the purpose of working with the company to eliminate these concerns. The tariff was suspended through February 1, 1999.

As a result of the on-going negotiations between the parties, the tariff was suspended at the January 19, 1999 Authority Conference, the March 2, 1999 Authority Conference and again at the

---

<sup>2</sup> Citizens of Tennessee removed the \$19.30 charge for Centrex lines terminating on a PBX/Key system on February 3, 1999, Tariff 99-00053.

April 6, 1999 Authority Conference. Upon the breakdown of negotiations, Citizens and the TRA Staff were directed to file briefs with the Authority for the purpose of determining approval or denial of the proposed tariffs. In accordance with the schedule agreed to by the parties, briefs were submitted on March 11, 1999, with reply briefs submitted on March 17, 1999.

The Centrex tariff restructure of Citizens of the Volunteer State results in a 15% overall revenue increase to the company. This increase is in addition to the increase realized when Citizens of the Volunteer State correctly applies its existing tariff. Furthermore, three (3) out of the Company's twelve (12) customers will receive a rate increase under the proposed tariff with largest customer increase being \$703 per month, or 81%. This increase is in addition to the 74% increase that the customer will experience when Citizens of the Volunteer State begins applying its tariff correctly. Another customer will receive a \$106 per month, or 21% rate increase under the proposed tariff in addition to the 46% increase that the customer will experience when Citizens of the Volunteer State begins applying its tariff correctly.

The proposed tariff would result in significant rate shock to two customers. Both of these customers are small, having less than fifty (50) Centrex lines; therefore, it is reasonable to expect that approval of the proposed tariff could present financial difficulty to both of these subscribers. Citizens of the Volunteer State offers little justification for the proposed rate structure. Its brief, filed jointly with Citizens of Tennessee, focuses primarily on the proposition that correct application of the existing tariff results in higher charges to the majority of customers than the proposed tariff. However, upon review of the analysis provided by Citizens of the Volunteer State, the proposed tariff generates 32% additional revenue to the Company while the correct application of the existing tariff generates 16% additional revenue to the Company.

The necessity of restructuring its digital Centrex tariff would not exist had Citizens of the Volunteer State followed the terms and conditions of its existing tariffs. In approving the original settlement agreement, the Authority directed Citizens of the Volunteer State to simplify its tariffs. This

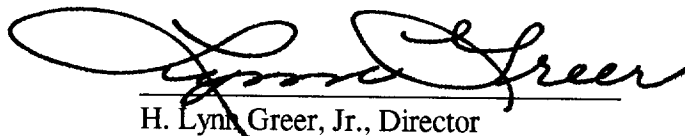
instruction in no way implied that Citizens of the Volunteer State should implement a rate structure that includes an additional rate increase. The Authority agrees with the objective of Citizens of the Volunteer State to reduce the rate increase that customers will realize when Citizens correctly applies its Centrex tariffs, but the proposed tariff fails to accomplish this goal for all customers.

Tenn. Code Ann. § 65-5-203 gives the TRA the authority to hear and determine if a rate increase is just and reasonable. Furthermore, pursuant to Tenn. Code Ann. § 65-5-203(a), the burden of proof in justifying a rate increase lies with the public utility. After consideration of the tariffs and the briefs of the parties in this matter, the Directors determined that Citizens of the Volunteer State did not provide such justification for its proposed rate increase in this case, and the Directors voted unanimously to deny Tariff 98-00686.

**IT IS THEREFORE ORDERED THAT:**


Citizens Telecommunications Company of the Volunteer State Tariff to Restructure Digital Centrex Service is denied.

  
Melvin J. Malone, Chairman

  
H. Lynn Greer, Jr., Director

  
Sara Kyle, Director

ATTEST:

  
K. David Waddell, Executive Secretary